

Central Intelligence Agency



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## DIRECTORATE OF INTELLIGENCE

19 September 1986

**Hong Kong's Transition to Chinese Control: Building for 1997** ☐

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**Summary**

Since the signing of the Hong Kong accord in December 1984, authority there has begun to shift gradually to the Chinese. London appears resigned to a slow decline in its sway over Hong Kong rather than risk jeopardizing its growing economic ties to Beijing. The Hong Kong populace seems increasingly to accept Beijing's new role, but the business community continues to hedge its bets. The real test of China's ability to maintain business confidence is still some years off. ☐

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**Beijing is sending more personnel into Hong Kong, using Chinese cover companies, trade unions, the New China News Agency (NCNA), and legitimate business activities to build influence.**

This memorandum was prepared by ☐ Office of East Asian Analysis. Information available as of 19 September 1986 was used in its preparation. Comments and queries are welcome and may be directed to the Chief, International Security Branch, China Division, OEA, ☐.

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- To coordinate this effort, Beijing last year reorganized the NCNA--its principal unofficial representative in Hong Kong--along the lines of government departments, giving it the appearance of a shadow government and an alternative to the British authorities.
- The Chinese also are more often using the leftist press to try to shape public opinion, while trying to intimidate and co-opt Hong Kong's independent media. [redacted] the NCNA office in Hong Kong is systematically cultivating local newspaper editors and reporters by offering them home mortgage loans through local Chinese banks. [redacted]

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**Differences over the timing and extent of political reforms for Hong Kong are the major cause of tension between the UK and China. Recent bilateral consultations--including Governor Youde's trip to Beijing in late August--have somewhat eased Chinese suspicions and British concerns.**

- The British provided for indirect elections to the Legislative Council in September 1985, and London had planned to consider direct elections, changing the role of the governor, and expanding the Council's powers during the review of current reforms scheduled for 1987.
- At a November 1985 press conference, NCNA director Xu Jiatun, Beijing's chief representative in Hong Kong, implicitly accused the British of "deviating" from the 1984 Joint Declaration by pursuing these reforms without consulting the Chinese. Beijing probably viewed the reforms as an attempt to perpetuate British influence after 1997, to preempt the role of the Basic Law committee tasked to draw up a constitution for Hong Kong by 1990, and ultimately to limit China's ability to exercise future control over Hong Kong.
- London, anxious to protect its growing economic ties to China and to ensure a smooth transition, promised to consult with Beijing before proceeding with its reform measures.
- Shortly after Youde's late August trip, Xu Jiatun claimed that China would not oppose direct elections to the Legislative Council in 1988 if the Hong Kong people want such elections. Although he later retracted this statement--probably because he realized he overstepped his authority--Xu's comment may be an accurate reflection of changes in Chinese leadership views. [redacted]

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**Apart from these differences over democratic reforms, the British and the Chinese are working reasonably well together.**

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- In keeping with the accord, they have set up a land commission to regulate and disburse revenues from leasing arrangements.
- The Sino-British liaison group--established as part of the 1984 Joint Declaration to exchange information and to negotiate those issues left ambiguous by the accord--agreed that Hong Kong could gain independent status in GATT and is working out a basis for the territory to retain its separate membership in other international organizations. [REDACTED]

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**Another problem which the British and the Chinese commonly face is popular pressure against the construction of the Daya Bay nuclear power plant. Although opposition has risen dramatically since Chernobyl', both governments have vested economic and political interests in seeing the plant completed.**

- China's leaders and press virtually ignored a visiting antinuclear delegation from the colony which carried a million-signature petition to Beijing in late August. Beijing reversed its course and allowed a Legislative Council delegation to meet with Vice-Premier Li Peng and State Councillor Ji Pengfei on the Daya Bay issue in mid-September after realizing its previous inflexibility generated popular resentment in the territory. [REDACTED]

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**China's actions in Hong Kong continue to be tempered by several factors, including Beijing's interest in cultivating local and international business investment in China. Hong Kong's growing importance to China's modernization program--both as a trading partner and as a source of investment capital--offers local interest groups their greatest leverage over the longer run for influencing Chinese policy toward the territory.**

- Hong Kong businesses--many of which are interested in building political equity with Beijing--currently account for approximately 60 percent of all investment in China and 70 percent of all joint venture projects there. The US consulate estimates that Hong Kong and Macau have pledged approximately \$8 billion in foreign investments to China.
- Most Hong Kong businessmen nonetheless still hedge their bets by investing some profits abroad. [REDACTED]


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**China's ability to sustain the confidence of the local professional and business classes--essential to Hong Kong's continued prosperity--will become increasingly critical by the early to middle 1990s.**

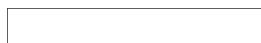
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- Many Hong Kong professionals are acquiring residence visas for the United States and Canada so that they can exercise the option of leaving the territory.
- As time grows short, many companies will face difficult decisions on whether to extend their leases beyond 1997, and, more important, whether to risk reinvesting in the territory or to protect their assets by transferring them abroad.
- Those decisions will undoubtedly be strongly influenced at that point by the success or failure of economic reforms in mainland China. 

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**Key Agreements of the 1984 Joint Declaration**

The policies set out in the Joint Declaration and in the annexes will be included in a Basic Law that will be maintained for 50 years after 1 July 1997. Under the agreement:

- Hong Kong will enjoy a high degree of autonomy as a Special Administrative Region (SAR) of the People's Republic of China, except in foreign and defense affairs, which are the responsibilities of the Central People's Government. Socialist policies applied in the mainland will not be applied to the SAR.
- The people of Hong Kong will continue to enjoy their existing rights and freedoms under Hong Kong law. The international covenant on civil and political rights and the international covenant on economic, social, and cultural rights will continue to be applied to Hong Kong. Private property, ownership of enterprises, legitimate right of inheritance, and foreign investment will be protected by law.
- The legislature of the SAR will make laws for Hong Kong. The legislature will be elected (how they will be elected is not specified), and the executive will be accountable to the legislature and to the courts.
- The government of the SAR will be composed of local inhabitants. Beijing will appoint the chief executive on the basis of an election or after consultations with local authorities. Beijing will also appoint principal officials on the recommendation of the chief executive of the SAR.
- Hong Kong's legal and judicial systems, including the common law, will be maintained. A court of final appeal will be established. The maintenance of public order will be the responsibility of the government of the SAR.
- The SAR will be able to negotiate agreements and participate in international organizations in appropriate fields. The SAR will have autonomy in economic, financial, and monetary fields. There will be no exchange control, and the Hong Kong dollar will continue to be freely convertible. Investors will be able to deposit or withdraw their capital freely. The SAR will retain the status of a free port and a separate customs territory.
- The SAR will have independent finances. The Central People's Government will not levy taxes on the SAR.
- Existing land rights will be recognized. The Hong Kong Government will be able to grant new leases extending until the year 2047.
- The right of free entry into and exit from Hong Kong will be guaranteed. The agreement sets out the criteria for the right of abode in Hong Kong and the issuance and use of passports and other travel documents.

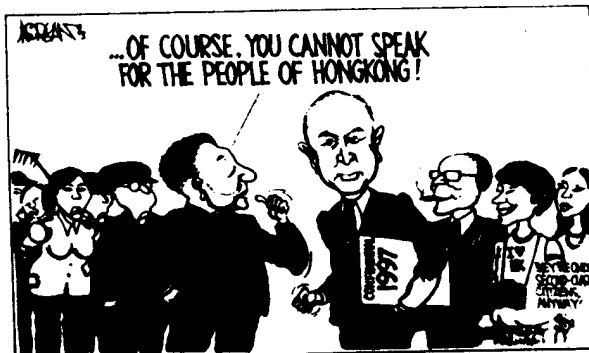


Figure 1. During the negotiations between the United Kingdom and China on the future of the territory, both sides claimed to "represent" the "people of Hong Kong." In a July 1983 press conference, Governor Youde stated, "I am the governor of Hong Kong... Indeed, I represent the people of Hong Kong." The Chinese, in turn, argued that "Mr. Youde... take(s) part in the talks as a member of the British Government delegation. Therefore he can only represent the British Government." The Chinese viewed the Hong Kong people as their compatriots—part of the same family, whose interests were a domestic issue and of no concern to Britain. (From the 21 July 1983 Far Eastern Economic Review)



Figure 2. In Hong Kong's first indirect election to the Legislative Council held last September, fewer than 0.5 percent of the territory's 5.5 million people elected 42 percent of the reformed Council. Beijing raised objections to the British-initiated democratic reforms despite their limitations. (From the 10 October 1985 Far Eastern Economic Review)

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